

# In Brief

*A plain and simple overview of the AcSB's Exposure Draft, Customer's Accounting for Cloud Computing Arrangements*

“The AcSB is taking a technical, yet pragmatic approach to address a range of stakeholders’ concerns on the accounting for cloud computing arrangements. We are keen to hear your feedback.”

– Linda Mezon-Hutter,  
AcSB Chair

<b>Project objectives:</b>	<p>The project strives to simplify the accounting for cloud computing arrangements while ensuring entities can provide relevant information to their users.</p> <p>This project will affect Canadian private enterprises and not-for-profit organizations (NFPOs) applying the standards in Part II of the CPA Canada Handbook – Accounting.</p>
<b>The project stage:</b>	<p>The AcSB is seeking feedback on its <a href="#">Exposure Draft, Customer's Accounting for Cloud Computing Arrangements</a>.</p> <p>The AcSB welcomes all feedback. We have asked specific questions in the Exposure Draft but welcome any additional information you would like to provide.</p>
<b>Next steps:</b>	<p>The AcSB will hold stakeholder consultations and consider all feedback received on the Exposure Draft.</p>
<b>Comment deadline:</b>	<p>Comments are requested by June 20, 2022.</p>
<b>How to respond:</b>	<p>Share your feedback by submitting a comment letter <a href="#">here</a>.</p>

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## Why is the AcSB undertaking this project?

Through its research on this project and input from its Advisory Committees, the AcSB became aware of key issues and other related financial reporting concerns in accounting for cloud computing arrangements.

Key concerns our stakeholders shared with us:

When the cloud computing arrangement is a service contract, expensing the costs to implement the software does not reflect the economic benefits an entity receives over time.

Applying existing guidance involves performing a complex analysis, which is difficult and costly to do, particularly for smaller entities.



Insufficient disclosures for users to understand what costs are capitalized or expensed, and the ongoing cash flow impact of implementing a cloud computing arrangement.

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### What did the AcSB develop?

Accounting Guidelines are a primary source of generally accepted accounting principles (GAAP).

The AcSB has developed an Accounting Guideline to address the customer's accounting for cloud computing arrangements.

Parts II and III of the Handbook explain the following:

*"Accounting Guidelines set out how existing Sections shall be applied in specific cases or the Board's conclusions on other particular issues of concern with respect to financial reporting."*

The proposed Accounting Guideline not only clarifies how Section 3064, *Goodwill and Intangible Assets*, should be applied to cloud computing arrangements, but it also provides guidance that addresses other issues of concerns raised by stakeholders.

Issuing an Accounting Guideline rather than amending Section 3064 also reinforces the AcSB's intent that the guidance only applies to cloud computing arrangements.

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### What are the key proposals in the Accounting Guideline?

The AcSB developed proposals that allow an entity to consider which accounting policy best suits its circumstances and would provide relevant information to its users.

#### Alternative View:

The AcSB had extensive discussions when developing the proposals. Two AcSB members disagreed with developing an exception to capitalize implementation costs when the arrangement is a software service because such costs do not meet the definition of an asset. Read the Basis for Conclusions in the Exposure Draft to find out more.

The Accounting Guideline includes the following key proposals:

<b>Optional simplification approach</b>	Applying the simplification approach means that an entity can expense as incurred the costs within the scope of the Guideline.
<b>Accounting for implementation costs</b>	If the simplification approach is not applied, an entity will have to perform an analysis to determine whether the software in the arrangement is a software intangible asset or a software service. Then the accounting for the related implementation costs is as follows: (a) For a software intangible asset, the entity will apply Section 3064 to account for the implementation costs. (b) For a software service, the entity can apply an accounting policy to: i. continue to expense as incurred implementation costs in accordance with Section 3064; or ii. capitalize qualifying implementation costs and present such costs as prepaid expenses.
<b>Disclosures</b>	An entity is required to disclose information to help users understand what costs are capitalized or expensed and the ongoing cash flow impact of implementing a cloud computing arrangement.
<b>Effective date and transition provision</b>	The AcSB proposes that the Accounting Guideline be effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. An entity applies the Guideline retrospectively, but only to cloud computing arrangements that exist on or after the beginning of the earliest period presented in the financial statements.

The proposed Guideline also includes a decision tree showing the key steps an entity should consider when applying the proposed Guideline and two illustrative examples.

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## We want your feedback!

The deadline to comment is June 20, 2022. The AcSB will be holding roundtables with stakeholders and having targeted consultation meetings involving users, preparers, and practitioners. Get involved and share your views!

### How can I comment on the proposals?

Share your feedback by [submitting](#) a comment letter.

### When are the roundtables?

The AcSB is holding two [virtual roundtables](#) on:

Wednesday, June 1, 2022 (EN)

Tuesday, June 7, 2022 (FR)

1:00 pm - 3:00 pm

Complete the registration form to attend the roundtable of your choice!

### Stay informed

Stay up to date on this project by visiting the [Cloud Computing Arrangements](#) project page.

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